



OPEN MEETING

MEMORANDUM

RECEIVED

TO: THE COMMISSION

FROM: Utilities Division

DATE: May 27, 2014

RE: UNS GAS, INC. - APPLICATION FOR APPROVAL TO REDUCE ITS DEMAND SIDE MANAGEMENT SURCHARGE AND FOR RELATED APPROVALS. (DOCKET NO. G-04204A-14-0132)

Arizona Corporation Commission

2014 MAY 27 P 1:06

DOCKETED

MAY 27 2014

DOCKET CONTROL

DOCKETED BY

ORIGINAL

On April 16, 2014, UNS Gas, Inc. ("UNS Gas" or "Company") filed an application for approval to reset its demand-side management ("DSM") adjustor rate, in accordance with Decision No. 70011.

The UNS Gas DSM adjustor mechanism allows the Company to recover the cost of its DSM programs; the adjustor rate is based on projected spending for the Company's DSM programs. Under- or over-collections are then "trued-up" at the next adjustor rate reset, meaning that the negative or positive balances are taken into account when the new adjustor rate is set.

Decision No. 70011 established the DSM adjustor and set the adjustor rate to be applied on a per therm basis. Also, pursuant to Decision No. 70011, UNS Gas was to file an application by April 1st of each year for Commission approval to reset the adjustor rate, with the new rate to take effect on June 1st of each year.

The Company is requesting a reduction of its annual energy efficiency program budget from \$1,612,582 to \$729,462. The only changes sought by UNS Gas to its program budget are to discontinue the Existing Homes Retrofit and Residential Energy Assessment Program ("Existing Home Program") and increase the budget for the Low-Income Weatherization ("LIW") Program from \$201,500 to \$251,500. UNS Gas is also requesting a reduction in the Company's DSM surcharge from \$0.0084 per therm to \$0.0048 per therm to reflect the reduced budget and a temporary credit of (\$0.0023) per therm for two years to return over-collected funds to customers.

The Table below details UNS Gas' current DSM portfolio including Commission-approved programs, expenditures and proposed revised costs for 2014.

Program	2013/2014 Budget	2013 Expenditures	2014 Proposed Budget
Residential Programs			
Low-Income Weatherization	\$201,500	\$205,642	\$251,500
Residential New Construction	\$140,932	\$85,194	\$140,932
Existing Home Program	\$933,120	\$547,992	\$0
Commercial Programs			
C&I Facilities Gas Efficiency	\$218,545	\$73,225	\$218,545
Total for Programs	\$1,494,097	\$912,053	\$610,977
Program Develop., Analysis & Reporting	\$118,485	\$118,485	\$118,485
Portfolio Totals	\$1,612,582	\$1,030,538	\$729,462

The seasonal bill impacts for Residential customers of UNS Gas' proposed DSM surcharge decrease and surcredit are listed below:

	Average Monthly Usage in Therms	Current DSM Surcharge { \$0.0084 per therm }	UNS Gas Proposed Decreased DSM Surcharge { \$0.0048 per therm }	UNS Gas Proposed Temporary Two Year Surcredit { -\$0.0023 per therm }	Monthly Bill Total { \$0.0025 per therm }
Summer	18	\$0.15	\$0.09	-\$0.04	\$0.05
Winter	76	\$0.64	\$0.36	-\$0.17	\$0.19

Staff's review of the UNS Gas annual DSM Progress Report (Docket No. G-00000G-14-0105) indicates that, although participation in the Existing Homes Program was high in 2013, the program produced a negative net benefit (benefit/cost ratio = 0.64). Staff considers it appropriate to remove funding for the Existing Homes Program from the budget. Additionally, given the demand and participation in the LIW Program, coupled with the increase in income eligibility from 150% to 200% of the federal poverty level (Decision No. 73939), Staff believes it reasonable to increase the LIW Program budget from \$201,500 to \$251,500.

As of December 31, 2013, UNS Gas had a surcharge over-collection balance of \$700,606. Staff believes that this over-collection should be returned to customers expeditiously.

Scenario 1. UNS Gas has proposed a surcredit of \$0.0023. Based on this level of surcredit, projections indicate the Company would pay back the over-collected amount by July of 2016, approximately two years.

Scenario 2. Due to the seasonal nature of the gas industry, Staff Scenario 2 proposes an alternative to the Company's proposed surcredit. Scenario 2 would apply a surcredit of \$0.0033 per

therm only during winter months (January, February, March, April, November and December) until the over-collection is returned.

The bill impacts for Residential customers from Staff's Scenario 2 DSM surcharge decrease and surcredit are listed below:

	Average Monthly Usage in therms	Current DSM Surcharge {\$0.0084 per therm}	Staff Proposed Decreased DSM Surcharge {\$0.0048 per therm}	Staff Proposed Temporary Two Year Winter Surcredit {- \$0.0033 per therm}	Monthly Bill Total
Summer	18	\$0.15	\$0.09	\$0.00	\$0.09
Winter	76	\$0.64	\$0.36	(\$0.25)	\$0.11

Scenario 3. Instead of implementing a surcredit, Staff Scenario 3 further decreases the DSM surcharge to a level which would allow the Company to recoup the difference between its 2014 DSM budget and its already over-collected balance. The new DSM surcharge amount of \$0.0005, based on the Company's sales forecast, would provide the company with a \$50,000 reserve.

The Residential bill impacts associated with this scenario are listed below:

	Average Monthly Usage in therms	Current DSM Surcharge {\$0.0084 per therm}	Proposed Decreased DSM Surcharge {\$0.0005 per therm}	Monthly Bill Total {\$0.0005 per therm}
Summer	18	\$0.15	\$0.01	\$0.01
Winter	76	\$0.64	\$0.04	\$0.04

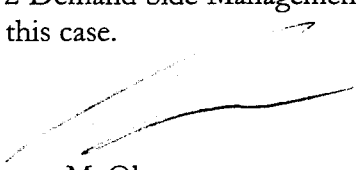
Staff recommends that the DSM adjustor rate be reset to \$0.0005 per therm (Scenario 3) by July 2014 and continue until the Company's next DSM adjustor rate application is approved or until further Commission action, whichever occurs first. The \$0.0005 per therm DSM surcharge outlined in Scenario 3 includes the Company's proposed increase in the LIW Program budget from \$201,500 to \$251,500 and the discontinuation of the Existing Home Program. Scenario 3 allows the Company to collect the difference between the 2014 DSM budget and the already over-collected balance of \$700,606; additionally, this surcharge will allow for a \$50,000 budget reserve.

THE COMMISSION

May 22, 2014

Page 4

Staff recommends that UNS Gas file, as a compliance item in this docket, an updated Rider R-2 Demand Side Management Surcharge tariff within 15 days of the effective date of the Decision in this case.



Steven M. Olea
Director
Utilities Division

SMO:EMV:sms\RRM

ORIGINATOR: Eric Van Epps

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BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP
Chairman
GARY PIERCE
Commissioner
BRENDA BURNS
Commissioner
BOB BURNS
Commissioner
SUSAN BITTER SMITH
Commissioner

IN THE MATTER OF THE APPLICATION
OF UNS GAS, INC. FOR APPROVAL TO
REDUCE ITS DEMAND SIDE
MANAGEMENT SURCHARGE AND
RELATED APPROVALS.

DOCKET NO. G-04204A-14-0132

DECISION NO. _____

ORDER

Open Meeting
June 10 and 11, 2014
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. UNS Gas, Inc. ("UNS Gas" or "the Company") is engaged in providing natural gas service within portions of Arizona, pursuant to authority granted by the Arizona Corporation Commission.

2. On April 16, 2014, UNS Gas filed an application for approval to reset its demand-side management ("DSM") adjustor rate, in accordance with Decision No. 70011.

3. The UNS Gas DSM adjustor mechanism allows the Company to recover the cost of its DSM programs; the adjustor rate is based on projected spending for the Company's DSM programs. Under- or over-collections are then "trued-up" at the next adjustor rate reset, meaning that the negative or positive balances are taken into account when the new adjustor rate is set.

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4. Decision No. 70011 established the DSM adjustor and set the adjustor rate to be applied on a per therm basis. Also, pursuant to Decision No. 70011, UNS Gas was to file an application by April 1st of each year for Commission approval to reset the adjustor rate, with the new rate to take effect on June 1st of each year.

5. The Company is requesting a reduction of its annual energy efficiency program budget from \$1,612,582 to \$729,462. The only changes sought by UNS Gas to its program budget are to discontinue the Existing Homes Retrofit and Residential Energy Assessment Program ("Existing Home Program") and increase the budget for the Low-Income Weatherization ("LIW") Program from \$201,500 to \$251,500. UNS Gas is also requesting a reduction in the Company's DSM surcharge from \$0.0084 per therm to \$0.0048 per therm to reflect the reduced budget and a temporary credit of (\$0.0023) per therm for two years to return over-collected funds to customers.

6. The Table below details UNS Gas' current DSM portfolio including Commission-approved programs, expenditures and proposed revised costs for 2014.

Program	2013/2014 Budget	2013 Expenditures	2014 Proposed Budget
Residential Programs			
Low-Income Weatherization	\$201,500	\$205,642	\$251,500
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Program Develop., Analysis & Reporting	\$118,485	\$118,485	\$118,485
Portfolio Totals	\$1,612,582	\$1,030,538	\$729,462

7. The seasonal bill impacts for Residential customers of UNS Gas' proposed DSM surcharge decrease and surcredit are listed below:

	Average Monthly Usage in therms	Current DSM Surcharge {\$0.0084 per therm}	Proposed Decreased DSM Surcharge {\$0.0048 per therm}	Temporary Two Year Surcredit {- \$0.0023 per therm}	Monthly Bill Total {\$0.0025 per therm}
Summer	18	\$0.15	\$0.09	-\$0.04	\$0.05
Winter	76	\$0.64	\$0.36	-\$0.17	\$0.19

8. Staff's review of the UNS Gas annual DSM Progress Report (Docket No. G-00000G-14-0105) indicates that, although participation in the Existing Homes Program was high in 2013, the program produced a negative net benefit (benefit/cost ratio = 0.64). Staff considers it appropriate to remove funding for the Existing Homes Program from the budget. Additionally, given the demand and participation in the LIW Program, coupled with the increase in income eligibility from 150% to 200% of the federal poverty level (Decision No. 73939), Staff believes it reasonable to increase the LIW Program budget from \$201,500 to \$251,500.

9. As of December 31, 2013, UNS Gas had a surcharge over-collection balance of \$700,606. Staff believes that this over-collection should be returned to customers expeditiously.

Scenario 1. UNS Gas has purposed a surcredit of \$0.0023. Based on this level of surcredit, projections indicate the Company would pay back the over-collected amount by July of 2016, approximately two years.

Scenario 2. Due to the seasonal nature of the gas industry, Staff *Scenario 2* proposes an alternative to the Company's purposed surcredit. *Scenario 2* would apply a surcredit of \$0.0033 per therm only during winter months (January, February, March, April, November and December) for a period of two years or until the over-collection is returned.

The bill impacts for Residential customers from Staff's *Scenario 2* DSM surcharge decrease and surcredit are listed below:

	Average Monthly Usage in therms	Current DSM Surcharge {\$0.0084 per therm}	Staff Proposed Decreased DSM Surcharge {\$0.0048 per therm}	Staff Proposed Temporary Two Year Winter Surcredit {- \$0.0033 per therm}	Monthly Bill Total
Summer	18	\$0.15	\$0.09	\$0.00	\$0.09
Winter	76	\$0.64	\$0.36	(\$0.25)	\$0.11

Scenario 3. Instead of implementing a surcredit, Staff *Scenario 3* further decreases the DSM surcharge to a level which would allow the Company to recoup the difference between its 2014 DSM budget and its already over-collected balance. The new DSM surcharge amount of \$0.0005, based on the Company's sales forecast, would provide the company with a \$50,000 reserve.

The Residential bill impacts associated with this scenario are listed below:

	Average Monthly Usage in therms	Current DSM Surcharge {\$0.0084 per therm}	Proposed Decreased DSM Surcharge {\$0.0005 per therm}	Monthly Bill Total {\$0.0005 per therm}
Summer	18	\$0.15	\$0.01	\$0.01
Winter	76	\$0.64	\$0.04	\$0.04

10. Staff has recommended that the DSM adjustor rate be reset to \$0.0005 per therm (*Scenario 3*) by July 2014 and continue until the Company's next DSM adjustor rate application is approved or until further Commission action, whichever occurs first. The \$0.0005 per therm DSM surcharge outlined in *Scenario 3* includes the Company's proposed increase in the LIW Program budget from \$201,500 to \$251,500 and the discontinuation of the Existing Home Program. *Scenario 3* allows the Company to collect the difference between the 2014 DSM budget and the already over-collected balance of \$700,606; additionally, this surcharge will allow for a \$50,000 budget reserve.

11. Staff has recommended that UNSG file, as a compliance item in this docket, an updated Rider R-2 Demand Side Management Surcharge tariff consistent with the Decision in this case within 15 days of the effective date of the Decision.

CONCLUSIONS OF LAW

1. UNS Gas, Inc. is an Arizona public service corporation within the meaning of Article XV, Section 2, of the Arizona Constitution.

2. The Commission has jurisdiction over UNS Gas, Inc. and over the subject matter of the application.

3. The Commission, having reviewed the application and Staff's Memorandum dated May 27, 2014, concludes that it is in the public interest to approve the UNS Gas, Inc. Demand-Side Management Surcharge beginning July 1, 2014, as discussed herein.

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ORDER

IT IS THEREFORE ORDERED that the UNS Gas, Inc. DSM adjustor rate be and hereby is set at \$0.0005 per therm, beginning July 1, 2014, and continue until the UNS Gas, Inc.'s next DSM adjustor rate application is approved or until further Commission action, whichever occurs first.

IT IS FURTHER ORDERED that UNS Gas, Inc. file, as a compliance item in this docket, an updated Rider R-2 Demand Side Management Surcharge tariff within 15 days of the effective date of the Decision in this case.

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, JODI JERICH, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this _____ day of _____, 2014.

JODI JERICH
EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

SMO: EMV:sms/RRM

SERVICE LIST FOR: UNS Gas, Inc.
DOCKET NO. G-04204A-14-0132

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